

## **CORE NEED AND ITS APPLICATION**

**A background discussion paper prepared for the  
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**by**

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## BACKGROUND PAPER

### CORE NEED AND ITS APPLICATION

#### 1) Introduction

In 1986, the Federal Government modified all of its social housing programs to ensure that they would be targeted to households in Core Need. While most people would agree that federal dollars should be targeted to those in need, the current definition of Core Need is too limited. This background paper provides an overview of how the Core Need definition was used in the past, how it is currently being used, the problems created by the current method for defining Core Need, its impact on social housing programs and some suggested modifications to the current approach.

#### 2) Background

##### Core Need was used as a Planning Tool

Core Need was a measure established to determine the number of households in the country who were unable to obtain minimum standard housing without paying an excessive proportion of their income for shelter. Unlike previous measures used to determine housing need in the country, Core Need took three factors into account: household income, physical adequacy of the dwelling unit and crowding. Data such as Statistics Canada's "Households, Income Facilities and Equipment (HIFE)" have been used to determine Core Need. In addition to measuring the overall magnitude of the housing problem, Core Need was also used by governments to determine the distribution of social housing dollars. Areas with a higher proportion of Core Need received a greater proportion of public funds. The Core Need model is extremely useful both as a measurement of overall need and as the basis for the distribution of public funds.

##### Core Need is Now Used to Determine Individual Household Eligibility for Social Housing Programs

The concept of Core Need has been taken a step further, and is currently being used as the basis to establish individual housing eligibility for all social housing programs. All social housing dollars are to be targeted to households within the Core Need. While few would argue that in periods of restraint and limited government expenditure, programs should be targeted towards those in greatest need, there are a number of significant problems that arise when a macro measure such as Core Need is used to determine individual household eligibility for various social programs.

#### 3) Crudeness of the Measure (Macro Measure/Micro Application)

##### How Core Need is Currently Being Defined

Local data is used to establish the core need income thresholds which will be applied in different market areas. The determination of the maximum income thresholds is based upon two factors: affordability as it relates to the private market, and adequacy as it relates to crowding.

In theory, the affordability measure is established by calculating average rent levels in vacant units of various sizes (ie. 1 bedroom, 2 bedroom and 3 bedroom) within a market area. The calculations are based on data from Canada Mortgage and Housing Corporation's semi-annual Apartment Vacancy Survey. To ensure data reliability, at least 25 vacant units of each type

must be available for that unit type to be included in the calculations. In practice, however, one vacant unit within a building results in the inclusion of all units in that building in the sample. Moreover, if, as is commonly the case, 25 incidences of vacant units of a certain type are not available, the total sample for CMHC's Vacancy Survey, both vacant and occupied units, is included in the data base. Similarly, in non-urban areas not covered by the CMHC Vacancy Survey, average market rates are estimated by local market analysts. Thus, particularly in tight markets and smaller centres, the rent levels used in setting core need cutoffs reflect average market rents and are significantly lower than average rent levels in available units. An additional concern is that the Vacancy Survey fails to differentiate between fully serviced and unserviced units.

The data gathered is used to establish average market rates for various unit types within the community. Assuming a ratio of 30% of gross income for housing, income cutoffs are set for each unit type. For example, if the average market rental for a two bedroom was \$500.00, a household would need an income of approximately \$20,000.00 or more if they were to pay less than 30% of income towards shelter.

Since Core Need is an indicator based upon three variables, a correlation between household size and unit type is used to establish the minimum income cutoffs. The basis for this correlation is the occupancy standards used to define crowding, i.e.

1 person	-	bachelor
2 person	-	1 bedroom
3 - 4 person	-	2 bedroom
5 + person	-	3 bedroom

Using the average market rents and the crowding thresholds for the various types of units, Core Need income cutoffs are established for various household sizes. The following table provides an outline of the Core need income cutoff for seven metro areas in the country.

TABLE 1

CORE NEED INCOME CUTOFFS

CITY	CUTOFF BY HOUSEHOLD SIZE			
	1 Person	2 Person	3-4 Person	5+ Person
Halifax	14,000	17,000	21,000	24,000
Montreal	13,000	15,000	17,500	19,000
Toronto	15,500	23,000	27,500	30,500
Winnipeg	13,000	15,000	19,000	23,500
Saskatoon	13,000	14,500	18,000	21,000
Edmonton	13,000	16,000	19,000	21,000
Vancouver	14,000	17,000	23,000	25,000

This crude determination of Core Need, provides some indication of the potential magnitude of the affordability problem within a community. To effectively measure affordability within a community, an analysis of the number of households below the Core Need income cutoffs paying more than 30% of their income for housing is also required. Without this subsequent

analysis, Core Need only provides an indication of the number of households who would have an affordability problem within the private market, should they choose to move, and as a result, is perhaps more a measure of the relationship between housing prices and incomes across the country.

#### Problems Created by the Crudeness of the Measure

This definition of Core Need is not only being used to measure potential affordability problems across the country, it is now used to determine individual household eligibility for all social housing programs. In order to qualify for a rent supplement, residency in a non-profit project, homeowner RRAP, or rural and native housing, a household's income must not exceed that established for their household sizes. The use of this macro measure to determine an individual household's qualification for a specific program is most inappropriate. The rental data base is limited in scope in that only buildings that contain six or more units are included in the sample and no adjustments are made to ensure that the rents reflect fully serviced accommodation. While most housing analysts would agree that ground-oriented housing is more appropriate for households with children, the vacancy rate survey focuses on apartments and not townhouses. In many market areas, the average rental for a townhouse is greater than the average for an apartment. If, for example, the average rental for a townhouse was \$75.00/month higher than an apartment, the income threshold would be understated by \$3,000.00. A \$25/month upwards adjustment for utilities would result in the income thresholds being understated by \$1,000.00. The inclusion in the data base of all units in buildings that have vacancies may well result in an understatement of the overall average market rents. This is especially true in tight markets where much of the newer stock would be higher priced and this inclusion of a lower priced non-available unit could effectively skew the average downwards.

The tendency to understate income thresholds is not the only problem with the Core Need definition, it also assumes an inappropriate measure of housing adequacy. The measure of housing adequacy used to determine the Core Need income cutoffs is the minimum threshold used to determine crowding. This measure is crude, since it really does not take into account current thinking with regard to occupancy standards which are based upon the number of persons per bedroom and takes into account the age and sex of the occupants. A more comprehensive measure of adequate occupancy standards would result in more than one correlation between household size and unit size. Take for example, a four person household, consisting of two parents and two teenage children of different sex. Most would agree that this household would not be appropriately housed in a two-bedroom unit and that they should occupy a three bedroom unit, whereas a household of two adults and two children of the same sex under six years of age might well be adequately housed in a two bedroom unit. Another household of four persons, consisting of a single parent mother, grandmother, two children of different sexes, one in their teens and one under ten, would probably require a four bedroom unit. Under the current system, the eligibility of all of these households would be based upon the income cutoff for a two bedroom unit. For example, if these households lived in Halifax, they all would have to have an income of \$21,000 or less to qualify for a social housing program. It should be noted that there will be no program occupancy requirements based upon these standards. Each of these households could occupy a different size unit. However, their income must be below the cutoffs established for the size of their household in order to qualify for social housing assistance.

In summary, the Core Need definition, while appropriate as a global measure of housing need, is too crude an instrument for micro application.

#### Problems Created by the Application of the Definition

In addition to the problems with the crudeness of the measure, there are problems with its application. To be eligible for assistance, a household must both be in the Core Need income group and be in Core Need as defined below:

"HOUSEHOLDS IN NEED" means those households who cannot afford or cannot obtain adequate and suitable accommodation. This includes those households:

- a) who occupy a crowded or inadequate dwelling and who currently pay less than 30% of their income for shelter but for whom basic shelter costs for an adequate and suitable dwelling available in their market area would consume 30% or more of their income;
- b) who pay 30% or more of their income for shelter and for whom an adequate and suitable dwelling available in their market area would consume 30% or more of their income;
- c) who have a need for special purpose accommodation.

Only households who meet these criteria will be eligible for assistance under the new social housing programs. A household who may be inadequately housed according to a more sophisticated definition of occupancy standards may not be eligible for assistance if they are paying less than 30% of their income towards their current accommodation. Households currently living in social housing projects may not be eligible for assistance in new social housing projects, unless their dwelling unit were crowded or inadequate.

#### 4) Impact on Housing Programs

##### Impact on the Residential Rehabilitation Assistance Program

Few would disagree that in times of restraint, government funding should be directed towards households in need. From this perspective, the distribution of government funding based upon Core Need is indeed appropriate. However, because of the limitation of the definition, the insistence that all social housing program dollars be directed towards the Core Need may not be appropriate. Although the definition and its application does take other crowding/adequacy into account, the main focus is housing affordability. As a result, other housing based objectives have become secondary to the issue of affordability. Take for example, the Residential Rehabilitation Assistance Program (RRAP), which among other things was developed to encourage Canadians to improve and maintain the existing housing stock in the country. Given the fact that 75% of the housing stock that will be available in the year 2001 has already been built (CMHC: 1985), most would agree that a housing policy that encourages the upgrading of the existing stock should be pursued. To be eligible for RRAP, now considered a social housing program, a homeowner must fall into the Core Need income category. The end result of this is to shift the objective of the program away from preservation of existing housing stock to income redistribution. The Canadian Association of Housing and Renewal

officers (CAHRO), whose members are responsible for the delivery of RRAP have indicated that in some areas approximately half the households on their RRAP waiting list would be excluded by the Core Need cutoffs. (CAHRO: 1986)

#### Impact on the Non-Profit Housing Program

Another example is the shift in focus of the non-profit supply based program. Now all occupants of non-profit projects must be in Core Need. This will result in housing projects resembling the old public housing projects rather than the mixed income, non-profit projects developed in the last few years. When the concept of targeting to those in need was introduced, most housing delivery agents were under the impression that this would still result in income mixing within individual projects. Since the method used to determine Core Need results in cutoffs that are quite low, the range of incomes within the projects will be limited. For example, in the City of Hamilton, with core income cutoffs of 1 person at \$13,000, 2 persons at \$14,500, 3 - 4 persons at \$16,500, and 5+ persons at \$20,500, the highest income within a project would be \$20,500. While few would argue that households within this income group should have access to non-profit housing, it seems that the reasons for shifting from targeted to mixed income housing (e.g. to prevent ghettoization of the recipient, and to gain general public acceptance of projects within neighbourhoods) have been completely ignored in the design of the new non-profit housing program, even though when announcing the program the Minister indicated this would not happen:

"In my consultations, I received strong representations calling for the continuation of some income-mixing to avoid low-income ghettos and the community resistance they might generate. I want to make clear that directing assistance to households in need does not mean a return to discredited versions of public housing. The definition of those in need is broad enough to allow for a considerable range of income groups to be served. It allows us to continue to assist the working poor as well as senior citizens and families on welfare." (Bill McKnight: December 1985).

#### Impact on Rent Supplement Program to be Used by Co-ops

The rent supplement program will be available only to Core Need households. Potential problems regarding the rent supplement have been identified by the Co-operative Housing Foundation of Canada, who will use the Rent Supplement Program for low income members. Historically, eligibility for rent supplement was based upon a household's income; if a household could not afford the cost of a housing unit at a predetermined rate of income for shelter (e.g. 25% - 30%), they would be eligible for rent supplement. Under the new program, only households that meet the criteria of Core Need and are themselves in Core Need, will be eligible for assistance. Households who do not fall into Core Need, but who are unable to afford the housing costs at 25% - 30% of income may well end up paying a higher proportion of their income toward housing, or not being accepted in a co-op project. For example, the average market rent for a fully serviced 3-bedroom co-op unit in Edmonton is \$650.00. However, only households with incomes of \$21,000 or less will be eligible for rent supplement. A household will need an income of \$26,000 to pay the charge of \$650 assuming 30% of income for shelter. The potential inequities resulting from the use of the Core Need to determine household eligibility is quite great. A household whose income is \$21,000.00 in Edmonton living in a co-operative would be eligible for assistance of \$2,550.00 annually and would only have to pay 25% of their income for housing, while a household earning \$21,001.00 would get

no benefit and have to pay 37% of their income towards housing. In order to live in a co-op project, households with incomes between \$21,000 and \$26,000 will have to pay more than 30% of gross income for housing. This will mean that some Canadian households will not have access to co-operative housing on an equitable basis; those in the Core Need and those able to afford the housing charges will be paying a similar proportion of income to shelter, while those who do not qualify for Core Need, but cannot afford the maximum housing charge, will have to pay a higher proportion of their income for shelter to live in a co-op project.

## 5) What Should Be Done

The most appropriate solution to the problem would be to provide income supplements to households of lower income through the social security system and to refocus social housing policies and programs towards housing issues. In all probability this will not happen in the immediate future, therefore some immediate adjustments should be made both to the method of defining Core need income cutoffs and to its application.

The overall concept of setting income cutoffs on average market rents is in itself questionable and should be reviewed. If the Federal Government is insistent on using this technique, then it should be modified so that it will not understate income requirements.

At the very least, the definition of Core Need should:

- a) be based upon data that includes family oriented housing;
- b) not include vacant housing stock that would not be fit for habitation;
- c) truly reflect the rental costs of fully serviced units;
- d) be based on data that is adjusted to take into account the actual availability of units within the market place.

Household income limitations should be based upon occupancy standards that take into account the household configuration, including the age and sex of the occupants. While this will undoubtedly result in different income limitations for households of the same size, this type of sophistication is necessary if a micro-measure is to be effective.

There are also a number of basic principles that should be taken into account:

- a) a household's choice should not be limited, i.e. households should have the ability to move from one social housing unit to another, or to select one form of tenure over another.
- b) households should be treated equitably.

In summary, the current method of establishing eligibility for social housing based upon a crude macro measure is inappropriate and results in an inequitable treatment of households in similar circumstances. In addition, it effectively places housing based social policy in a secondary position to limited concerns over income redistribution. While the overall concept of targeting in times of budgetary constraint may well be acceptable, the technique used is questionable.